



LEKWA LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

General Information

Legal form of entity	Local municipality
Executive Mayor	Vacant
Councillors	AJ Brits AE Cawood JR de Ville LB Dhlamini PN Dlamini SA Maboae MG Makhanya NJ Maseko VJ Mashinini MM Mnisisi SE Modise ML Molaba CM Morajane SS Mosia JB Mothopeng MR Motloung GS Mpanza TC Ndlovu MS Radebe MD Rakitla F Sarang PT Schnetler ENK Shabangu NZE Sitshoni H van der Merwe SM Zacarias BS Zwane
Grading of local authority	Low capacity municipality
Accounting Officer	JI Sindane
Chief Finance Officer (CFO)	RTO Dipone
Business address	CNR Dr Beyers Naude and Mbonani Mayisela Street Standerton 2430
Postal address	PO Box 66 Standerton 2430
Telephone no	(017) 712-9600
Fax no	(017) 712-6808
E-mail address	admin@lekwalm.gov.za
Bankers	First National Bank Limited
Auditors	Auditor General

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Index	Page
Accounting Officer's Responsibilities and Approval	4
Accounting Officer's Report	5 - 6
Statement of Financial Position	7
Statement of Financial Performance	8
Statement of Changes in Net Assets	9
Cash Flow Statement	10
Accounting Policies	11 - 30
Notes to the Annual Financial Statements	31 - 53
Appendixes:	
Appendix A: Schedule of External loans	54
Appendix B: Analysis of Property, Plant and Equipment	55
Appendix D: Segmental Statement of Financial Performance	57
Appendix E(1): Actual versus Budget (Revenue and Expenditure)	58
Appendix F: Disclosure of Grants and Subsidies in terms of the Municipal Finance Management Act	60

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Index

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practices (GRAP).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2011 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 53, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2010 and were signed on its behalf by:

Jl Sindane
Administrator

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2010.

1. Review of activities

Main business and operations

Net surplus of the municipality was R 43,051,618 (2009: deficit R 128,252,037).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting policies

The annual financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Non-current assets

Details of major changes in the nature of the non-current assets of the municipality during the year is set out in the notes to the financial statements.

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name

Jl Sindane

7. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at Board meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

Councillors

The Councillors:

- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;
- is of a unitary structure comprising:
 - non-executive directors, all of whom are independent directors as defined in the Code; and
 - executive directors.
- has established a Board directorship continuity programme.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Officer's Report

Chair person and chief executive

The Chairperson is a non-executive and independent director (as defined by the Code).

The roles of Chairperson and Chief Executive are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion.

Remuneration

The upper limits of the remuneration of the Chief Financial Officer, who is the only executive director of the municipality, are determined by the Executive Director, and the accounting officer will determine the remuneration within the above mentioned limits.

Executive meetings

The accounting officer has met on 13 separate occasions during the financial year. The accounting officer schedules to meet at least 12 times per annum.

Non-executive directors have access to all members of management of the municipality.

Audit and risk committee

The municipality had no audit and risk committee's during the year under review.

Internal audit

The municipality had no internal auditors for the year under review.

8. Bankers

The municipality banks primarily with First National Bank Limited.

9. Auditors

The Auditor General will continue in office for the next financial period.

10. Public Private Partnership

In accordance with the PPP agreement, the Contractor shall open a separate account with a bank registered in the Republic of South Africa, for the purpose of administering and separate safekeeping of:

- moneys deposited as excess surpluses;
- any foreign exchange rate amounts;
- any service credits; and
- any penalties for later service commencement text.

The municipality had no Public Private Partnerships during the year.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Statement of Financial Position

Figures in Rand	Note(s)	2010	2009
Assets			
Current Assets			
Inventories	6	2,024,939	1,986,092
Other financial assets	5	12,050,873	838,465
Trade and other receivables from exchange transactions	7	731,855	3,128,184
VAT receivable	8	6,747,911	4,944,638
Consumer debtors	9	32,906,920	18,232,209
Cash and cash equivalents	10	3,615,479	3,000
		58,077,977	29,132,588
Non-Current Assets			
Property, plant and equipment	4	38,366,435	14,441,857
Total Assets		96,444,412	43,574,445
Liabilities			
Current Liabilities			
Other financial liabilities	11	247,811	1,448,760
Finance lease obligation	12	173,068	152,061
Trade and other payables from exchange transactions	15	41,782,731	21,782,593
Consumer deposits	16	3,271,942	2,382,731
Unspent conditional grants and receipts	13	17,082,181	15,087,824
Provisions	14	4,911,303	4,845,251
Bank overdraft	10	-	10,325,974
		67,469,036	56,025,194
Non-Current Liabilities			
Other financial liabilities	11	3,600,938	5,053,365
Finance lease obligation	12	435,990	609,057
		4,036,928	5,662,422
Total Liabilities		71,505,964	61,687,616
Net Assets		24,938,448	(18,113,171)
Net Assets			
Accumulated surplus		24,938,448	(18,113,171)

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Statement of Financial Performance

Figures in Rand	Note(s)	2010	2009
Revenue			
Fines		629,884	1,019,118
Government grants & subsidies	20	98,729,444	56,056,575
Interest received		16,896,680	16,372,095
Interest received - investment	27	450,337	2,045,670
Licences and permits		4,873,084	2,713,887
Other grants and donations		2,220,472	1,441,620
Other income		1,082,234	1,959,263
Property rates	18	32,000,427	25,445,666
Rental of facilities and equipment		3,488,626	3,486,486
Service charges	19	151,516,220	132,336,615
Tender deposits		60,100	35,432
Total Revenue		311,947,508	242,912,427
Expenditure			
Bulk purchases	32	(92,272,486)	(65,185,705)
Debt impairment	26	(45,251,225)	(143,574,096)
Finance costs	29	(754,595)	(915,664)
General Expenses	22	(40,650,838)	(70,758,516)
Grants and subsidies paid	31	(4,370,311)	(5,970,349)
Personnel	24	(79,481,537)	(75,922,559)
Repairs and maintenance		(6,114,898)	(8,837,575)
Total Expenditure		(268,895,890)	(371,164,464)
Surplus (deficit) for the year		43,051,618	(128,252,037)

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Statement of Changes in Net Assets

Figures in Rand	Insurance reserve	Accumulated surplus	Total net assets
Balance at 01 July 2009	74,120,130	110,138,866	184,258,996
Changes in net assets			
Prior year adjustments	(74,120,130)	-	(74,120,130)
Net income (losses) recognised directly in net assets	(74,120,130)	-	(74,120,130)
Surplus for the year	-	(128,252,037)	(128,252,037)
Total recognised income and expenses for the year	(74,120,130)	(128,252,037)	(202,372,167)
Total changes	(74,120,130)	(128,252,037)	(202,372,167)
Balance at 01 July 2009	-	(18,113,170)	(18,113,170)
Changes in net assets			
Surplus for the year	-	43,051,618	43,051,618
Total changes	-	43,051,618	43,051,618
Balance at 30 June 2010	-	24,938,448	24,938,448

Note(s)

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Cash Flow Statement

Figures in Rand	Note(s)	2010	2009
Cash flows from operating activities			
Receipts			
Sale of goods and services		230,986,293	288,127,987
Grants		100,717,917	66,155,851
Interest income		450,337	2,045,670
		332,154,547	356,329,508
Payments			
Employee costs		(79,481,537)	(75,922,559)
Suppliers		(200,037,548)	(294,326,241)
Finance costs		(754,595)	(915,664)
		(280,273,680)	(371,164,464)
Net cash flows from operating activities	33	51,880,867	(14,834,956)
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(23,924,578)	(14,441,857)
(Increase) / Decrease in other financial assets		(11,212,408)	24,242,606
Net cash flows from investing activities		(35,136,986)	9,800,749
Cash flows from financing activities			
Repayment of other financial liabilities		(2,653,376)	(1,586,749)
Finance lease payments		(152,060)	761,118
Net cash flows from financing activities		(2,805,436)	(825,631)
Net increase/(decrease) in cash and cash equivalents		13,938,445	(5,859,838)
Cash and cash equivalents at the beginning of the year		(10,322,974)	(4,463,136)
Cash and cash equivalents at the end of the year	10	3,615,471	(10,322,974)

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note 2 Changes in accounting policy

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the enterprise, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

The fair value of investment properties has not been reviewed as the municipality have applied the transitional provisions as set out in Directive 4. The municipality is in the process of determining the fair value of all its investment properties. A service provider was acquired to assist with the process.

Transitional provision

The municipality changed its accounting policy for investment property in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. Investment property has accordingly been recognised at provisional amounts, as disclosed in . The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where investment property was acquired through a transfer of functions, the municipality is not required to measure that investment property for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.2 Investment property (continued)

Until such time as the measurement period expires and investment property is recognised and measured in accordance with the requirements of the Standard of GRAP on Investment property, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Investment property implies that any associated presentation and disclosure requirements need not be complied with for investment property not measured in accordance with the requirements of the Standard of GRAP on Investment property.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are not depreciated as the municipality have applied the transitional provisions as set out in Directive 4. The municipality is in the process of determining the residual values and useful life of all assets. A service provider was acquired to assist with the process.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.3 Property, plant and equipment (continued)

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 4. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where property, plant and equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2010 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 4.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

Accounting Policies

1.4 Site restoration and dismantling cost (continued)

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability (subject to (b)) is credited to other comprehensive income and accumulated in the revaluation surplus in equity, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
 - an increase in the liability is recognised in surplus or deficit, except that it is debited to other comprehensive income as a decrease to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and to other comprehensive income under (a). If a revaluation is necessary, all assets of that class are revalued.

1.5 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are not amortised as the municipality have applied the transitional provisions as set out in Directive 4. The municipality is in the process of determining the residual values and useful life of all assets. A service provider was acquired to assist with the process.

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

Transitional provision

The municipality changed its accounting policy for intangible assets in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.5 Intangible assets (continued)

According to the transitional provision, the municipality is not required to measure intangible assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Intangible assets. Intangible Assets has accordingly been recognised at provisional amounts, as disclosed in . The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where intangible assets was acquired through a transfer of functions, the municipality is not required to measure that intangible assets for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later.

Until such time as the measurement period expires and intangible assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Intangible assets implies that any associated presentation and disclosure requirements need not be complied with for intangible assets not measured in accordance with the requirements of the Standard of GRAP on Intangible assets.

1.6 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Regular way purchases of financial assets are accounted for at trade date.

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.6 Financial instruments (continued)

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment in other comprehensive income and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Loans to / (from) economic entities

Loans to economic entities are classified as loans and receivables.

Loans from economic entities are classified as financial liabilities measured at amortised cost.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.6 Financial instruments (continued)

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
 - has transferred substantially all the risks and rewards of the asset, or
 - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of

Accounting Policies

1.6 Financial instruments (continued)

estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.8 Inventories (continued)

completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Transitional provision

The municipality changed its accounting policy for inventories in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure inventories for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Inventories. Inventories has accordingly been recognised at provisional amounts, as disclosed in 6. The transitional provision expires on 30 June 2012

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where inventories was acquired through a transfer of functions, the municipality is not required to measure that inventories for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2010 and inventories has accordingly been recognised at provisional amounts, as disclosed in 6.

Until such time as the measurement period expires and inventories is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Inventories implies that any associated presentation and disclosure requirements need not be complied with for inventories not measured in accordance with the requirements of the Standard of GRAP on Inventories.

1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation / (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation / (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

1.10 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation / (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation / (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a non-cash-generating asset is the present value of the non-cash-generating asset's remaining service potential.

The present value of the remaining service potential of a non-cash-generating asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation / (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.11 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

1.12 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Accounting Policies

1.12 Provisions and contingencies (continued)

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note .

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount, and account for any impairment loss, in accordance with the amounting policy on impairment of assets as described in accounting policy 1.9 and 1.10.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
 - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.12 Provisions and contingencies (continued)

- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

Transitional provision

The municipality changed its accounting policy for provisions, contingent liabilities and contingent assets in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 2 of the GRAP Reporting Framework.

In accordance with the transitional provision as per Directive 2 of the GRAP Reporting Framework, where provisions, contingent liabilities and contingent assets was acquired through a transfer of functions, the municipality is not required to measure that provisions, contingent liabilities and contingent assets for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2010 and provisions, contingent liabilities and contingent assets has accordingly been recognised at provisional amounts, as disclosed in 14.

Until such time as the measurement period expires and provisions, contingent liabilities and contingent assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets implies that any associated presentation and disclosure requirements need not be complied with for provisions, contingent liabilities and contingent assets not measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets.

1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.13 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.14 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Levies

Levies are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.15 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.16 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.17 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.21 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is:

- (a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;
- (b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
- (c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
- (d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law,

but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure".

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.22 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.23 Presentation of currency

These annual financial statements are presented in South African Rand.

1.24 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.25 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.26 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.27 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.28 Research and development expenditure

Research costs are charged against operating surplus as incurred. Development costs are recognised as an expense in the period in which they are incurred unless the following criteria are met:

- The product or process is clearly defined and the costs attributable to the process or product can be separately identified and measured reliably;
- The technical feasibility of the product or process can be demonstrated;
- The existence of a market or, if to be used internally rather than sold, its usefulness to the municipality can be demonstrated;
- Adequate resources exist, or their availability can be demonstrated, to complete the project and then market or use the product or process; and
- The asset must be separately identifiable.

Where development costs are deferred, they are written off on a straight-line basis over the life of the process or product, subject to a maximum of five years. The amortization begins from the commencement of the commercial production of the product or use of the process to which they relate.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
-----------------	------	------

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

- GRAP17 - Property, Plant and Equipment

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2009 is as follows:

Statement of financial position

Property, plant and equipment

Previously stated	-	50,589,399
Adjustment	-	(36,147,542)
	-	14,441,857

Opening retained earnings

Previously stated	-	(61,825,265)
Adjustment	-	36,147,542
	-	(25,677,723)

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 26: Impairment of cash-generating assets

Cash-generating assets are those assets held by an municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, an municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, an municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and an municipality applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

An municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, an municipality estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2010.

The municipality expects to adopt the standard for the first time in the 2011 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
 - pool the assets contributed by various entities that are not under common control; and
 - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
 - an entity's decision to terminate an employee's employment before the normal retirement date; or
 - an employee's decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
 - All short-term employee benefits;
 - Short-term compensated absences;
 - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
 - Actuarial valuation method;
 - Attributing benefits to periods of service;
 - Actuarial assumptions;
 - Actuarial assumptions: Discount rate;
 - Actuarial assumptions: Salaries, benefits and medical costs;
 - Actuarial gains and losses;
 - Past service cost.
- Plan assets:
 - Fair value of plan assets;
 - Reimbursements;
 - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2011.

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.

The impact of this standard is currently being assessed.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle an municipality to a portion of another municipality's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, an municipality considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where an municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. An municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. An municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, an municipality can however designate such an instrument to be measured at fair value.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

An municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once an municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, an municipality has transferred control of the asset to another municipality.

An municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where an municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

An municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for an municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. An municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2011.

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

3.2 Standards and Interpretations early adopted

The municipality has chosen not to early adopt any standards and interpretations:

3.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2010 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2011.

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand 2010 2009

4. Property, plant and equipment

	2010			2009		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Furniture and fixtures	45,327	-	45,327	138,246	-	138,246
IT equipment	189,167	-	189,167	175,000	-	175,000
Infrastructure	23,720,786	-	23,720,786	9,096,819	-	9,096,819
Community	561,325	-	561,325	230,620	-	230,620
Other property, plant and equipment	4,857,198	-	4,857,198	362,334	-	362,334
Other equipment	364,720	-	364,720	317,131	-	317,131
Wastewater network	8,413,525	-	8,413,525	4,121,707	-	4,121,707
Water network	214,387	-	214,387	-	-	-
Total	38,366,435	-	38,366,435	14,441,857	-	14,441,857

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Total
Furniture and fixtures	138,246	(92,919)	45,327
IT equipment	175,000	14,167	189,167
Infrastructure	9,096,819	14,623,967	23,720,786
Community	230,620	330,705	561,325
Other property, plant and equipment	362,334	4,494,864	4,857,198
Other equipment	317,131	47,589	364,720
Wastewater network	4,121,707	4,291,818	8,413,525
Water network	-	214,387	214,387
	14,441,857	23,924,578	38,366,435

Reconciliation of property, plant and equipment - 2009

	Opening balance	Additions	Total
Furniture and fixtures	-	138,246	138,246
IT equipment	-	175,000	175,000
Infrastructure	-	9,096,819	9,096,819
Community	-	230,620	230,620
Other property, plant and equipment	-	362,334	362,334
Other equipment	-	317,131	317,131
Wastewater network	-	4,121,707	4,121,707
	-	14,441,857	14,441,857

Capitalised expenditure (excluding borrowing costs)

Furniture and fixtures	(92,919)	138,246
IT equipment	14,167	175,000
Infrastructure	14,623,967	9,096,819
Community	330,705	230,620
Other property, plant and equipment	4,494,864	362,334
Other equipment	47,589	317,131
Wastewater network	4,291,818	4,121,707
Water network	214,387	-
	23,924,578	14,441,857

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
-----------------	------	------

4. Property, plant and equipment (continued)

Transitional provisions

Property, plant and equipment recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 2, certain property, plant and equipment with a carrying value of R 38,366,435 (2009: R 14,441,857) was recognised at provisional amounts. Carrying amounts of property, plant and equipment carried at provisional amounts are as follows:

Due to initial adoption of GRAP 17

Tangible fixed assets	1,160,539	860,997
Infrastructure assets	37,205,896	13,580,860

Steps taken to establish the values of property, plant and equipment recognised at provisional amounts due to the initial adoption of GRAP 17, is as follows:

The municipality will use the services of an accredible service provider which will assist in determining the valuation of Property, Plant and Equipment.

The date at which full compliance with GRAP 17 is expected, is 30 June 2012.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

5. Other financial assets

ABSA Bank Limited, Fixed deposit	-	22,055
The investment matures monthly, bears interest at 11.5% per annum.		
First National Bank Limited, Surity	-	29,246
The investment matures monthly, bears interest at 9.55% per annum.		
First National Bank Limited, Call Account	10,966,108	82,046
The account is available on demand, bears interest at 4.9% per annum.		
First National Bank Limited, Call Account	1,084,765	669,224
The account is available on demand, bears interest at 4.5% per annum.		
Nedbank Limited	-	35,894
The investment matures monthly, bears interest at 8.6% per annum.		
	12,050,873	838,465

Current assets

Investments	12,050,873	838,465
-------------	------------	---------

The municipality has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
6. Inventories		
Materials	2,024,939	1,986,092
Transitional provisions		
Inventories recognised at provisional amounts		
In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note certain inventories with a carrying value of R 2,024,939 (2009: R 1,986,092) was recognised at provisional amounts. Carrying amounts of inventories carried at provisional amounts are as follows:		
7. Trade and other receivables from exchange transactions		
Other receivable	731,855	3,128,184
8. VAT receivable		
VAT	6,747,911	4,944,638
9. Consumer debtors		
Gross balances		
Rates	49,317,827	-
Electricity	27,000,180	-
Water	57,917,309	-
Sewerage	34,346,299	-
Refuse	18,969,681	-
Other (specify)	82,104,734	209,730,095
	269,656,030	209,730,095
Less: Provision for debt impairment		
Rates	(42,219,789)	-
Electricity	(18,882,755)	-
Water	(53,424,722)	-
Sewerage	(30,830,982)	-
Refuse	(16,929,859)	-
Other (specify)	(74,461,003)	(191,497,886)
	(236,749,110)	(191,497,886)
Net balance		
Rates	7,098,038	-
Electricity	8,117,425	-
Water	4,492,587	-
Sewerage	3,515,317	-
Refuse	2,039,822	-
Other (specify)	7,643,731	18,232,209
	32,906,920	18,232,209
Rates		
Current (0 -30 days)	2,753,558	
31 - 60 days	2,103,435	
61 - 90 days	1,934,899	
91 - 120 days	306,146	
	7,098,038	

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
9. Consumer debtors (continued)		
Electricity		
Current (0 -30 days)	5,558,890	
31 - 60 days	1,326,178	
61 - 90 days	947,426	
91 - 120 days	284,931	
	8,117,425	
Water		
Current (0 -30 days)	1,765,342	
31 - 60 days	1,237,679	
61 - 90 days	1,222,357	
91 - 120 days	267,209	
	4,492,587	
Sewerage		
Current (0 -30 days)	1,221,110	
31 - 60 days	1,042,255	
61 - 90 days	1,065,938	
91 - 120 days	186,014	
	3,515,317	
Refuse		
Current (0 -30 days)	739,636	
31 - 60 days	622,225	
61 - 90 days	568,772	
91 - 120 days	109,189	
	2,039,822	
Other (specify)		
Current (0 -30 days)	2,857,028	
31 - 60 days	2,255,896	
61 - 90 days	2,094,915	
91 - 120 days	435,892	
	7,643,731	
Reconciliation of debt impairment provision		
Balance at beginning of the year	(191,497,886)	(142,189,940)
Contributions to provision	(45,251,224)	(49,307,946)
	(236,749,110)	(191,497,886)

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2010, R 1,612,217 were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	14,895,564	-
2 months past due	8,587,668	-
3 months past due	7,834,307	-

Consumer debtors impaired

As of 30 June 2010, consumer debtors of R 236,749,110 (2009: R 191,497,886) were impaired and provided for.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
10. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	6,000	3,000
Bank balances	3,609,479	-
Bank overdraft	-	(10,325,974)
	3,615,479	(10,322,974)
Current assets	3,615,479	3,000
Current liabilities	-	(10,325,974)
	3,615,479	(10,322,974)
11. Other financial liabilities		
Held at amortised cost		
Development Bank of South Africa The loan is unsecured, bears interest at a rate linked to the prime lending rate and is repayable in half yearly instalments.	3,446,823	5,559,300
Development Bank of South Africa The loan is unsecured, bears interest at a fixed rate of 16.11% per annum and is repayable in half yearly instalments.	149,988	197,766
Development Bank of South Africa The loan is unsecured, bears interest at a fixed rate of 15.53% per annum and is repayable in half yearly instalments.	-	103,161
Development Bank of South Africa The loan is unsecured, bears interest at a fixed rate of 15.82% per annum and is repayable in half yearly instalments.	251,938	641,898
	3,848,749	6,502,125
Non-current liabilities		
At amortised cost	3,600,938	5,053,365
Current liabilities		
At amortised cost	247,811	1,448,760
	3,848,749	6,502,125

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
12. Finance lease obligation		
Minimum lease payments due		
- within one year	247,565	247,565
- in second to fifth year inclusive	495,131	742,696
	742,696	990,261
less: future finance charges	(133,638)	(229,143)
Present value of minimum lease payments	609,058	761,118
Present value of minimum lease payments due		
- within one year	173,068	152,061
- in second to fifth year inclusive	435,990	609,057
	609,058	761,118
Non-current liabilities	435,990	609,057
Current liabilities	173,068	152,061
	609,058	761,118

It is municipality policy to lease certain motor vehicles under finance leases.

The average lease term was 5 years and the average effective borrowing rate was 14% (2009: 14%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note .

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Systems Improvement Grant (MSIG)	1,233,519	556,431
Financial Management Grant (FMG)	901,157	365,518
Municipal Infrastructure Grant (MIG)	11,263,202	11,309,731
Neighbourhood Development Partnership Grant (NDPG)	3,684,303	2,546,144
National Electrification Programme Grant (INEP)	-	310,000
	17,082,181	15,087,824

Movement during the year

Balance at the beginning of the year	11,759,277	3,328,547
Additions during the year	16,432,504	11,759,277
Income recognition during the year	(11,109,600)	-
	17,082,181	15,087,824

See note for reconciliation of grants from National/Provincial Government.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand 2010 2009

14. Provisions

Reconciliation of provisions - 2010

	Opening Balance	Additions	Utilised during the year	Total
Provision for long service	823,101	422,283	(362,623)	882,761
Provision for bonuses	1,310,955	1,385,594	(1,310,955)	1,385,594
Provision for leave	2,115,476	2,047,229	(2,115,476)	2,047,229
Provision for workmans compensation	595,719	-	-	595,719
	4,845,251	3,855,106	(3,789,054)	4,911,303

Reconciliation of provisions - 2009

	Opening Balance	Additions	Utilised during the year	Total
Provision for long service	-	823,101	-	823,101
Provision for bonus	-	1,310,955	-	1,310,955
Provision for leave	4,878,294	-	(2,762,818)	2,115,476
Provision for workmans compensation'	65,081	582,001	(51,363)	595,719
	4,943,375	2,716,057	(2,814,181)	4,845,251

Transitional provisions

Provisions recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note certain provisions with a carrying value of R 4,911,303 (2009: R 4,845,251) was recognised at provisional amounts.

15. Trade and other payables from exchange transactions

Trade payables	7,472,493	3,687,620
Payments received in advanced - contract in process	5,862,913	-
Accrued expense	28,404,304	18,082,514
Deposits	43,021	12,459
	41,782,731	21,782,593

16. Consumer deposits

Rates	3,271,942	2,382,731
-------	-----------	-----------

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
-----------------	------	------

17. Revenue

Property rates	32,000,427	25,445,666
Service charges	151,516,220	132,336,615
Rental of facilities & equipment	3,488,626	3,486,486
Fines	629,884	1,019,118
Licences and permits	4,873,084	2,713,887
Government grants & subsidies	98,729,444	56,056,575
	291,237,685	221,058,347

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	151,516,220	132,336,615
Rental of facilities & equipment	3,488,626	3,486,486
Licences and permits	4,873,084	2,713,887
	159,877,930	138,536,988

The amount included in revenue arising from non-exchange transactions is as follows:

Property rates	32,000,427	25,445,666
Fines	629,884	1,019,118
Government grants & subsidies	98,729,444	56,056,575
	131,359,755	82,521,359

18. Property rates

Rates received

Residential	24,809,040	15,780,292
Commercial	3,808,799	3,857,233
State	2,229,931	997,225
Property rates	1,152,657	4,810,916
	32,000,427	25,445,666

19. Service charges

Sale of electricity	99,894,492	75,782,808
Sale of water	25,150,460	32,473,272
Sewerage and sanitation charges	16,755,678	15,684,424
Refuse removal	9,715,590	8,396,111
	151,516,220	132,336,615

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
20. Government grants and subsidies		
Equitable share grant	49,169,110	39,444,737
Municipal Systems Improvement Grant (MSIG)	57,912	178,569
Financial Management Grant (FMG)	214,360	134,483
Municipal Infrastructure Grant (MIG)	35,666,193	8,016,816
Neighbourhood Development Partnership Grant (NDPG)	13,305,984	6,931,970
National Electrification Programme Grant (INEP)	315,885	1,350,000
	98,729,444	56,056,575

Municipal Systems Improvement Grant (MSIG)

Balance unspent at beginning of year	556,431	-
Current-year receipts	735,000	735,000
Conditions met - transferred to revenue	(57,912)	(178,569)
	1,233,519	556,431

Conditions still to be met - remain liabilities (see note 13)

Provide explanations of conditions still to be met and other relevant information

Conditions for Municipal Systems Improvement Grants:

- Submission of signed activity plan in a prescribed format with detailed budget and time frames on the implementation of prioritised measurable outputs.
- Submission of monthly expenditure reports by the 10th of every month and in accordance with the Division of Revenue Act.

Financial Management Grant (FMG)

Balance unspent at beginning of year	365,518	-
Current-year receipts	750,000	500,000
Conditions met - transferred to revenue	(214,361)	(134,482)
	901,157	365,518

Conditions still to be met - remain liabilities (see note 13)

Provide explanations of conditions still to be met and other relevant information

Conditions for Financial Management Grant;

- Appointment of an appropriately skilled municipal manager and CFO
- Appointment of at least two interns for purposes of building future financial management capacity
- Council Resolution committing council to reforms
- Submission of primary bank account details
- Development of an action plan for implementation
- Monthly reporting on performance

Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	11,309,731	3,328,547
Current-year receipts	35,619,664	15,998,000
Conditions met - transferred to revenue	(35,666,193)	(8,016,816)
	11,263,202	11,309,731

Conditions still to be met - remain liabilities (see note 13)

Provide explanations of conditions still to be met and other relevant information

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
-----------------	------	------

20. Government grants and subsidies (continued)

Financial, capacity and reporting conditions for Municipal infrastructure Grants:

- Submit its financial statements to the Auditor-General on time
- Demonstrate that it has the capacity to manage the infrastructure investment programme
- Prepare and submit all monthly reports on how it has used the grant in a prescribed format by a specified time
- Allocate MIG funds in the municipal budget
- Prepare a project business plan for each project
- Register projects on the national MIG database.

Neighbourhood Development Partnership Grant (NDPG)

Balance unspent at beginning of year	2,546,144	-
Current-year receipts	14,444,143	9,478,114
Conditions met - transferred to revenue	(13,305,984)	(6,931,970)
	3,684,303	2,546,144

Conditions still to be met - remain liabilities (see note 13)

Provide explanations of conditions still to be met and other relevant information

National Electrification Programme Grant (INEP)

Balance unspent at beginning of year	310,000	-
Current-year receipts	-	1,660,000
Conditions met - transferred to revenue	(310,000)	(1,350,000)
	-	310,000

Conditions still to be met - remain liabilities (see note 13)

Provide explanations of conditions still to be met and other relevant information

Conditions for National Electrification Programme Grants:

- Municipalities must contractually undertake to:
 - Account for the allocated funds on a monthly basis by the 10th of every month
 - Pass all benefits to end-customers
 - Not utilize the fund for any purpose other than electrification
 - Ring-fence funds transferred. Adhere to the approved electrification programme and agreed cash flow budgets
 - Ring-fence electricity function
 - Reflect all assets created under the Integrated national Electrification Program (INEP) on the municipal asset register; this is to assist the process for the formation of the REDS
 - Safety operate and maintain the infrastructure
 - Adhere to the labour intensive construction methods in terms of the Expanded Public Works Programme (EPWP) guidelines for activities such as trenching, planting of poles, etc.
- Register the master Plans for bulk infrastructure in terms of the INEP framework and to abide by the directives of the Department regarding the central planning and co-ordination for such bulk infrastructure. This is to maximize the economies of scale in the creation of bulk infrastructure affecting more than one municipality
- Use INEP funds for the refurbishment of critical infrastructure, only upon submission of a project plan which must be approved under a framework to be regulated by the Department.

21. Other revenue

Rental income	2,220,472	1,441,620
Other income	1,082,234	1,959,263
Tender deposits	60,100	35,432
	3,362,806	3,436,315

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
22. General expenses		
Advertising	1,544,097	993,864
Animal Costs	-	117,485
Assessment rates & municipal charges	1,666,213	4,051,613
Auditors remuneration	1,786,594	405,817
Bank charges	259,374	273,256
Commission paid	541,592	888,474
Community development and training	406,960	449,361
Consulting and professional fees	2,442,788	2,388,916
Consumables	425,870	538,998
Consumables	2,429,711	2,319,295
Donations	39,064	212,170
Entertainment	143,204	153,021
Environment cleaning	783,067	556,649
Fruitless expenditure	711,085	89,322
Impairment of debt	74,412	-
Fleet	5,659,882	6,793,824
Horticulture	318,147	888,002
IT expenses	259,438	635,673
Insurance	1,364,078	1,102,145
Lease rentals on operating lease	(6,011)	438,561
Medical expenses	1,354	26,608
Other expenses	2,517,609	1,017,764
Pauper burials	85,466	151,799
Pest control	10,063	2,145
Protective clothing	257,286	386,493
Refuse	5,180	5,192
Security (Guarding of municipal property)	4,866,332	2,316,764
Subscriptions and membership fees	602,554	310,557
Telephone and fax	2,187,072	2,306,854
Grant expenditure	8,790,249	40,241,853
Training	478,108	696,041
	40,650,838	70,758,516

23. Operating surplus / (deficit)

Operating surplus / (deficit) for the year is stated after accounting for the following:

Operating lease charges

Motor vehicles		
• Contractual amounts	(41,492)	(226,235)
Equipment		
• Contractual amounts	35,481	664,796
	(6,011)	438,561
Employee costs	79,481,537	75,922,559

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
24. Employee related costs		
Basic	48,934,901	48,412,658
Medical aid - entity contributions	3,968,786	3,831,357
UIF	481,240	466,136
Workmans Compensation	594,626	582,380
Skills Development Levy	573,223	541,855
Other payroll levies	1,147,575	930,431
Leave pay provision charge	529,042	972,902
Post-employment benefits - Pension - Defined contribution plan	10,535,118	10,150,221
Travel, motor car, accommodation, subsistence and other allowances	4,428,581	4,712,133
Overtime payments	6,543,714	4,236,684
Long-service awards	362,626	367,815
Acting allowances	1,094,549	424,777
Housing benefits and allowances	287,556	293,210
	79,481,537	75,922,559

Remuneration of municipal manager

Annual Remuneration	-	243,853
Car Allowance	-	111,709
Other allowance	-	14,007
Contributions to UIF, Medical and Pension Funds	-	129,677
Termination benefit	-	337,143
	-	836,389

The position of municipal manager has been vacant for 2009 and 2010.

Remuneration of chief finance officer

Annual Remuneration	38,182	225,985
Car Allowance	11,667	150,162
Other allowance	2,369	4,846
Contributions to UIF, Medical and Pension Funds	9,964	7,807
Termination benefit	-	205,180
	62,182	593,980

Corporate and human resources (corporate services)

Annual Remuneration	468,894	421,896
Car Allowance	150,489	135,600
Housing allowance	7,958	7,170
Other allowances	5,419	6,473
Contributions to UIF, Medical and Pension Funds	10,279	9,204
	643,039	580,343

Health, safety and social services (emergency management services)

Annual Remuneration	300,452	269,860
Car Allowance	273,231	213,760
Housing allowance	15,084	13,560
Other allowances	7,344	12,810
Contributions to UIF, Medical and Pension Funds	37,255	34,584
	633,366	544,574

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
24. Employee related costs (continued)		
Technical services		
Annual Remuneration	354,966	319,172
Car Allowance	225,733	203,400
Housing allowance	15,048	13,560
Other allowances	23,324	20,706
Contributions to UIF, Medical and Pension Funds	41,592	34,134
	660,663	590,972
Finance and economics development		
Annual Remuneration	390,448	351,506
Car Allowance	120,391	108,480
Performance Bonuses	30,097	27,120
Other allowances	6,001	7,001
Contributions to UIF, Medical and Pension Funds	44,346	35,567
	591,283	529,674
25. Remuneration of councillors		
Councillors	4,413,959	5,039,368
Councillors' pension contribution	471,679	289,094
	4,885,638	5,328,462
26. Debt impairment		
Debt impairment	45,251,225	143,574,096
27. Investment revenue		
Interest revenue		
Investments	198,629	1,623,597
Bank	251,708	422,073
	450,337	2,045,670
28. Depreciation and amortisation		
As this was the first year the municipality applied GRAP 17, the municipality elected to apply the transitional provision as set out in directive 4. Therefor no depreciation was calculated hence the useful life and residual value of assets were not calculated		
29. Finance costs		
Trade and other payables	280	-
Other interest paid	754,315	915,664
	754,595	915,664
30. Auditors' remuneration		
Fees	1,786,594	405,817

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
31. Grants and subsidies paid		
Other subsidies		
Electricity - Indigent grants	321,306	2,222,838
Water - Indigent grants	4,049,005	3,747,511
	4,370,311	5,970,349
32. Bulk purchases		
Electricity	92,019,023	64,976,071
Water	253,463	209,634
	92,272,486	65,185,705
33. Cash generated from (used in) operations		
Surplus / (deficit)	43,051,618	(128,252,037)
Adjustments for:		
Debt impairment	45,251,225	143,574,096
Movements in provisions	66,052	(98,124)
Reserves	-	(74,120,130)
Changes in working capital:		
Inventories	(38,847)	487,572
Trade and other receivables from exchange transactions	2,396,329	-
Consumer debtors	(59,925,936)	35,299,869
Trade and other payables from exchange transactions	20,000,131	(5,307,225)
VAT	(1,803,273)	1,671,077
Unspent conditional grants and receipts	1,994,357	11,759,277
Consumer deposits	889,211	150,669
	51,880,867	(14,834,956)
34. Commitments		
Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	394,806	372,496
- in second to fifth year inclusive	994,026	1,310,098
	1,388,832	1,682,594

Operating lease payments represent rentals payable by the municipality for certain of its office equipment. Leases are negotiated for an average term of five years and rentals are fixed for an average of five years. No contingent rent is payable.

35. Related parties

Relationships

Accounting Officer

Refer to accounting officer's report note

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
-----------------	------	------

36. Prior period errors

The following prior year errors were identified and corrected rectrspectively:

- Bank transactions was not processed
- Finance leases was not accounted for
- Provisions for long service awards was not raised
- Provision for bonuses was not raised
- UIF on councillors not declard to SARS
- Some grants was not recorded
- Grants from LGSETA was offset against the expenses
- VAT was incorrectly processed
- Unspend portions of grants was not recognised as a liability
- Creditors were loaded into the accounting software that did not exist

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Cash and cash equivalents	2,711,380
Conditional grants not spend	(15,064,488)
Finance leases	(761,118)
Impairment of consumer debtors	(49,307,947)
Property, Plant and Equipment	16,244,145
Provisions	(2,134,056)
Opening accumulated surplus	2,532,375
Trade payables	(457,698)
Trade receivables	(9,693,267)
VAT	4,055,981
	(51,874,692)

Statement of financial performance

Finance costs	(1,397,640)
General expenses	36,862,021
Grants received	14,309,921
Other income	2,762,817
Revenue	(662,426)
	51,874,692

37. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes , , , 12, 11, cash and cash equivalents disclosed in note 10, and equity as disclosed in the statement of financial position.

In order to maintain or adjust the capital structure, the municipality may adjust the amount of dividends paid to member, return capital to member, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the municipality monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
-----------------	------	------

37. Risk management (continued)

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

38. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

39. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	711,085	5,004,046
------------------------------------	---------	-----------

40. Leases (Effects of transitional provisions)

In accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework, the municipality need not comply with the standard on Leases, until such time as the measurement period in the transitional provision for any of the following Standards of GRAP have expired:

- Construction Contracts
- Inventories
- Investment Property
- Property Plant and Equipments
- Provisions, Contingent Liabilities and Contingent Assets
- Agriculture
- Intangible Assets

41. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	3,848,749	6,502,125
------------------------------	-----------	-----------

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
-----------------	------	------

42. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix A for the comparison of actual operating expenditure versus budgeted expenditure.

43. Actual capital expenditure versus budgeted capital expenditure

Refer to Appendix B for the comparison of actual capital expenditure versus budgeted expenditure.

44. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

There was no deviation from Supply Chain Regulations.

APPENDIX A

LEKWA LOCAL MUNICIPALITY: SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2010

Loan Number		Redeemable	Balance at 30 June 2009	Received during the period	Redeemed written off during the period	Balance at 30 June 2010	Carrying Value of Property, Plant & Equip	Other Costs in accordance with the MFMA
			Rand	Rand	Rand	Rand	Rand	Rand
DEVELOPMENT BANK OF SOUTH AFRICA								
DBSA @ 16.11%	12369/101	31/12/2012	197,766	-	46,062	151,704	-	-
DBSA @ 15.53%	12837/101	31/12/2009	103,161	-	103,161	-	-	-
DBSA @ 15.82%	13738/102	30/09/2011	641,898	-	227,900	413,998	-	-
DBSA @ Prime	100198/1	31/03/2014	5,559,300	-	1,134,689	4,424,611	-	-
DBSA ARREARS @ 18.00%	12369/101		-	-	1,715	(1,715)	-	-
DBSA ARREARS @ 18.00%	12837/101		-	-	-	-	-	-
DBSA ARREARS @ Prime	13738/102		-	-	162,060	(162,060)	-	-
DBSA ARREARS @ Prime	100198/1		-	-	977,789	(977,789)	-	-
			6,502,125	-	2,653,376	3,848,749	-	-
TOTAL EXTERNAL LOANS								
DEVELOPMENT BANK OF SOUTH AFRICA			6,502,125	-	2,653,376	3,848,749	-	-
			6,502,125	-	2,653,376	3,848,749	-	-

Appendix B

June 2010

Analysis of property, plant and equipment as at 30 June 2010

Cost/Revaluation						Accumulated depreciation					
Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Closing Balance Rand	Carrying value Rand

Infrastructure

Buildings and grouped infrastructure	13,580,860	23,625,036	-	-	-	37,205,896	-	-	-	-	-	37,205,896
	13,580,860	23,625,036	-	-	-	37,205,896	-	-	-	-	-	37,205,896
Community Assets	230,620	330,705	-	-	-	561,325	-	-	-	-	-	561,325

Appendix B

June 2010

Analysis of property, plant and equipment as at 30 June 2010

	Cost/Revaluation					Accumulated depreciation					
	Opening Balance	Additions	Disposals	Transfers	Revaluations	Closing Balance	Opening Balance	Disposals	Transfers	Depreciation	Closing Balance
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
Other assets											
Plant & equipment	317,131	47,589	-	-	-	364,720	-	-	-	-	-
Computer Equipment	175,000	14,167	-	-	-	189,167	-	-	-	-	-
Furniture & Fittings	138,246	(92,919)	-	-	-	45,327	-	-	-	-	-
	630,377	(31,163)	-	-	-	599,214	-	-	-	-	599,214
Intangible assets											
Total											
Infrastructure	13,580,860	23,625,036	-	-	-	37,205,896	-	-	-	-	-
Community Assets	230,620	330,705	-	-	-	561,325	-	-	-	-	-
Other assets	630,377	(31,163)	-	-	-	599,214	-	-	-	-	-
	14,441,857	23,924,578	-	-	-	38,366,435	-	-	-	-	38,366,435

Lekwa Local Municipality

Appendix D

June 2010

Segmental Statement of Financial Performance for the year ended Prior Year Current Year

Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand		Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand
Municipality						
39,444,737	16,076,931	23,367,806	Executive & Council/Mayor and Council	10,000	14,825,918	(14,815,918)
67,277,243	162,800,939	(95,523,696)	Finance & Admin/Finance	153,928,782	30,815,546	123,113,236
26,832	7,762,901	(7,736,069)	Planning and Development/Economic Development/Plan	28,499	7,331,263	(7,302,764)
11,538,282	24,949,211	(13,410,929)	Comm. & Social/Libraries and archives	15,303,560	32,041,646	(16,738,086)
259,185	84,170	175,015	Housing	258,810	80,955	177,855
521	4,996,874	(4,996,353)	Public Safety/Police	-	5,091,086	(5,091,086)
15,905,603	6,133,539	9,772,064	Waste Water Management/Sewerage	16,970,718	6,618,341	10,352,377
-	7,056,539	(7,056,539)	Road Transport/Roads	-	7,150,932	(7,150,932)
32,473,272	60,824,271	(28,350,999)	Water/Water Distribution	25,151,074	58,663,907	(33,512,833)
75,986,751	80,941,698	(4,954,947)	Electricity /Electricity Distribution	100,296,067	106,167,335	(5,871,268)
242,912,426	371,627,073	(128,714,647)		311,947,510	268,786,929	43,160,581
Municipal Owned Entities Other charges						
242,912,426	371,627,073	(128,714,647)	Municipality	311,947,510	268,786,929	43,160,581
242,912,426	371,627,073	(128,714,647)	Total	311,947,510	268,786,929	43,160,581

Appendix E(1)

June 2010

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2010

Prior Year # 1 2008 Act. Bal.	Prior Year # 1 2008 Bud. Amt	Variance		Current year 2009 Act. Bal.	Current year 2009 Bud. Amt	Variance		Explanation of Significant Variances greater than 10% versus Budget
Rand	Rand	Rand	Var	Rand	Rand	Rand	Var	
Revenue								
25,445,666	25,554,000	(108,334)	(0.4)	32,000,428	28,109,400	3,891,028	13.8	Property rates
132,336,615	132,045,000	291,615	0.2	151,516,220	155,641,248	(4,125,028)	(2.7)	Service charges
3,486,486	4,603,440	(1,116,954)	(24.3)	3,488,626	3,658,025	(169,399)	(4.6)	Rental of facilities and equipment
16,372,095	7,581,720	8,790,375	115.9	16,896,680	16,386,864	509,816	3.1	Interest received
1,019,118	1,221,470	(202,352)	(16.6)	629,884	1,522,628	(892,744)	(58.6)	Fines
2,713,887	3,139,810	(425,923)	(13.6)	4,873,084	3,625,890	1,247,194	34.4	Licences and permits
56,056,574	37,477,258	18,579,316	49.6	98,729,444	50,391,618	48,337,826	95.9	Government grants & subsidies
1,441,620	(59,000)	1,500,620	543.4	2,220,472	51,793	2,168,679	187.2	Other grants and donations received
1,959,263	(2,349,484)	4,308,747	183.4	1,082,234	395,545	686,689	173.6	Other income
35,432	-	35,432	-	60,100	-	60,100	-	Tender deposits received
2,045,670	3,000,000	(954,330)	(31.8)	450,336	525,000	(74,664)	(14.2)	Interest received - investment
242,912,426	212,214,214	30,698,212	14.5	311,947,508	260,308,011	51,639,497	19.8	
Expenses								
(75,922,559)	(79,454,074)	3,531,515	(4.4)	(79,481,536)	(81,915,278)	2,433,742	(3.0)	Personnel
(915,664)	(990,000)	74,336	(7.5)	(754,595)	(281)	(754,314)	439.1	Finance costs
(143,574,096)	(71,198,559)	(72,375,537)	101.7	(45,251,225)	(29,119,897)	(16,131,328)	55.4	Debt impairment
(8,837,575)	(14,705,576)	5,868,001	(39.9)	(6,114,898)	(8,729,076)	2,614,178	(29.9)	Repairs and maintenance - General
(65,185,705)	(59,266,860)	(5,918,845)	10.0	(92,272,486)	(90,119,160)	(2,153,326)	2.4	Bulk purchases
(5,970,349)	(10,226,880)	4,256,531	(41.6)	(4,370,311)	(7,168,546)	2,798,235	(39.0)	Grants and subsidies paid
(70,758,513)	(123,740,440)	52,981,927	(42.8)	(40,650,836)	(106,567,729)	65,916,893	(61.9)	General Expenses
(371,164,461)	(359,582,389)	(11,582,072)	3.2	(268,895,887)	(323,619,967)	54,724,080	(16.9)	Other revenue and costs

Appendix E(1)

June 2010

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2010

Prior Year # 1 2008 Act. Bal.	Prior Year # 1 2008 Bud. Amt	Variance		Current year 2009 Act. Bal.	Current year 2009 Bud. Amt	Variance	Explanation of Significant Variances greater than 10% versus Budget
(128,252,035)	(147,368,175)	19,116,140	(13.0) Net surplus/ (deficit) for the year	43,051,621	(63,311,956)	106,363,577	(168.0)

DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003

June 2010

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure				Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun		
Finance Management Grant	National Treasury	750,000	-	-	-	-	7,648	104,427	138,443	Yes	N/A
Munisipal Infrastructure Grants	National Treasury	8,360,000	7,510,000	6,803,000	12,170,000	7,959,514	7,655,126	1,824,432	6,940,726	Yes	N/A
Munisipal Systems Improvement Grant	National Treasury	735,000	-	-	-	-	-	-	-	Yes	N/A
National Electrification Programme Grant	National Treasury	-	-	-	-	310,000	-	-	-	Yes	N/A
Neighbourhood Development Partnership Grant	National Treasury	-	-	11,898,000	2,024,257	2,196,805	3,569,183	3,508,903	2,484,547	Yes	N/A
		9,845,000	7,510,000	18,701,000	14,194,257	10,466,319	11,231,957	5,437,762	9,563,716		